PART 5

Virginia State Corporation Commission
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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
APPLICATION OF VIRGINIA ELECTRIC AND POWER COMPANY
CASE NO. PUR-2021-00058
DIRECT TESTIMONY AND EXHIBITS
OF
RALPH C. SMITH, C.P.A.

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Ralph C. Smith. I am a Certified Public Accountant licensed in the State of Michigan and a senior regulatory consultant in the firm Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC has extensive experience in the utility regulatory field providing expert witness testimony in over 600 regulatory proceedings, including numerous gas, electric, water and wastewater, and telephone utility cases.

Q. MR. SMITH, PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND RECENT WORK EXPERIENCE.

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the C.P.A. examination on my first sitting in 1979, received my C.P.A. license in 1981, and received a certified financial planning certificate in

1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed Certified Public Accountant and attorney in the State of Michigan. Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association. I have also been a member of the American Bar Association (ABA), and the ABA sections on Public Utility Law and Taxation.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July 1979. Before becoming involved in utility regulation where the majority of my time for the past 41 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning numerous electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions, and, where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, Washington, D.C., West Virginia, and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE VIRGINIA STATE CORPORATION COMMISSION ("COMMISSION")?

A. Yes. I testified before the Commission in Case Nos. PUE-2006-00065, PUE-2008-00046, PUE-2011-00037, PUE-2014-00026, and PUR-2020-00015 involving the earnings reviews and/or rate requests of Appalachian Power Company; in the 2008 rate case for Virginia-American Water Company, Case Nos. PUE-2008-00009, PUE-2015-00097, and PUR-2018-00175; and in the base rate cases for Virginia Electric and Power Company, Case Nos. PUE-2009-00019, PUE-2013-00020, and PUE-2015-00027. I submitted testimony in Case No. PUR-2020-00169 for approval of Virginia Electric and Power Company's Rider RGGI. I also testified before the Commission in the Columbia Gas of Virginia rate case, Case No. PUR-2018-00131.

Q. **HAVE YOU PREVIOUSLY TESTIFIED BEFORE OTHER STATE REGULATORY COMMISSIONS?**

A. Yes. I have previously submitted testimony before several other state regulatory commissions.

Q. **HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?**

A. Yes. I have attached Appendix RCS-1, which is a summary of my regulatory experience and qualifications.

Q. **ON WHOSE BEHALF ARE YOU APPEARING?**

A. Larkin & Associates, PLLC, was retained by the Virginia Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel") to review the earnings of Virginia Electric and Power Company d/b/a/ Dominion Energy Virginia ("Dominion" or "Company") for the Triennial Review period, 2017 through 2020, and to review the Company's prospective revenue requirement. Accordingly, I am appearing on behalf of Consumer Counsel.

Q. **ARE ANY ADDITIONAL WITNESSES APPEARING ON BEHALF OF CONSUMER COUNSEL IN THIS CASE?**

A. Yes. Professional engineer Scott Norwood and cost of capital expert Dr. J. Randall Woolridge are also presenting testimony on behalf of Consumer Counsel.

Q. **HOW IS YOUR TESTIMONY ORGANIZED?**

A. I will address Dominion's 2017, 2018, 2019 and 2020 earnings, and the Company's calculation of its prospective revenue requirement. In presenting my results, I have incorporated the recommendations of Consumer Counsel witnesses Norwood and Woolridge.

Q. WHAT EXHIBITS ARE BEING SUBMITTED WITH YOUR TESTIMONY?

A. The following exhibits are being submitted with my testimony:

- Exhibit LA-1 – 2017, 2018, 2019 and 2020 Earning Test Calculation Schedules
- Exhibit LA-2 – Revenue Requirement Summary Schedules
- Exhibit LA-3 – Adjustment Schedules
- Exhibit LA-4 – Graphic Depiction of Earnings Test Results and Earnings Sharing
- Exhibit LA-5 – Earnings Test Results and Over Earnings Sharing – Illustrative Materials from Staff's Presentation in Docket No. PUE-2014-00026
- Exhibit LA-6 – Company Discovery Responses Regarding Lobbying Expense
- Exhibit LA-7 – Company Discovery Responses Regarding Impairments Related to Plant Retirements
- Exhibit LA-8 – Company Discovery Responses Regarding ADIT Related to Plant Retirements
- Exhibit LA-9 – Company Discovery Responses Regarding PJM Administrative Fees

- Exhibit LA-10 – Company Discovery Responses Related to Payroll Expense, Work Force Levels, and Vacancies
- Exhibit LA-11 – Company Discovery Responses Related to Uncollectibles Expense
- Exhibit LA-12 – Company Discovery Responses Regarding Advanced Meter Infrastructure ("AMI") Meters and Related Costs
- Exhibit LA-13 – Company Discovery Responses Regarding Employee Benefits Expense Error Correction

<u>Rate of Return for Prospective Ratemaking</u>

Q. WHAT RATE OF RETURN DID YOU USE TO COMPUTE THE PROSPECTIVE REVENUE REQUIREMENT FOR DOMINION ENERGY VIRGINIA?

A. As shown on Schedule D of Exhibit LA-2, based on the recommendations of Dr. Woolridge, for the prospective revenue requirement calculation I used Dominion's actual capital structure at December 31, 2020 and cost of debt. In presenting my results for the prospective ratemaking period, I used an overall cost of capital of 6.638 percent, as shown on Exhibit LA-2, Schedule D. For the authorized return on common equity ("ROE"), I used 8.875 percent, based on the recommendation of Dr. Woolridge.

For purposes of showing the effect of our adjustments, I have accepted the Company's actual year-end capital structure. As a result of Dr. Woolridge's recommended ROE of 8.875 percent, the Investment Tax Credit component of the

Company's capital structure changed from 7.75 percent to 6.73 percent as shown on Exhibit LA-2, Schedule D.

Impact of 10 Basis Point Change in Return on Equity

Q. WHAT IS THE APPROXIMATE IMPACT ON DEV'S PROSPECTIVE REVENUE REQUIREMENT FROM CHANGES IN THE AUTHORIZED ROE?

A. For each change of 10 basis points in the ROE, the revenue requirement for prospective ratemaking would change by approximately $6.8 million on Consumer Counsel's adjusted rate base.

II. SUMMARY OF TESTIMONY

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. My primary findings and recommendations are as follows:

- During the combined 2017-2020 Triennial Review period, as shown on Exhibit LA-1, Schedule A, I calculate that Dominion Energy Virginia had an earned ROE of approximately 13.81 percent.
- During the combined 2017-2020 Triennial Review period, after recommended adjustments, Dominion had earnings that exceeded 9.90 percent, the top of end of its Commission-authorized earnings band. On a revenue basis, the excessive earnings equate to $994.1 million.
- The prospective ratemaking analysis presented on Exhibit LA-2 shows that at the ROE of 8.875 percent recommended by Consumer Counsel witness Woolridge and with the adjustments recommended by Consumer Counsel

witness Scott Norwood and myself, the Company's has a revenue sufficiency of at least $149 million for the rate year ended December 31, 2022. The Company's base rate revenue requirement, however, cannot be reduced by more than $50 million as a result of this proceeding.

<u>Summary of Earnings Test Results</u>

Q. WHAT IS THE SUMMARY OF CONSUMER COUNSEL'S EARNINGS TEST RESULTS?

A. Schedule A, page 2, summarizes the Consumer Counsel's adjusted earnings test results for the 2017-2020 Triennial Review period. Dominion's jurisdictional adjusted earnings shown there are as follows:

- 14.53 percent for 2017
- 14.44 percent for 2018
- 11.00 percent for 2019
- 15.30 percent for 2020
- 13.81 percent for the combined 2017-2020 Triennial Review period

<u>Summary of Prospective Ratemaking Results</u>

Q. PLEASE SUMMARIZE YOUR ADJUSTED RESULTS FOR PROSPECTIVE RATEMAKING.

A. The adjusted results for prospective ratemaking are summarized on Exhibit LA-2, Schedule A, page 1. The results from Dominion's supplemental filing, which showed a revenue deficiency of $120.591 million, are summarized in column A. Consumer Counsel's adjusted results, reflecting Dr. Woolridge's recommended capital structure and cost of equity and the adjustments that are being recommended by me and Mr. Norwood, are shown in column B, and show a revenue sufficiency of approximately $149 million. There is a $50 million statutory limitation on the amount of base rate revenue reduction that can be ordered by the Commission in the current proceeding. Because the $50 million maximum base rate revenue reduction is lower than the calculated amount of revenue sufficiency, I am recommending a base rate revenue reduction of $50 million in the current proceeding for prospective ratemaking.

Recommended Adjustments – Summary of Exhibit LA-3

Q. WHAT ADJUSTMENTS HAVE YOU MADE TO THE 2017-2020 EARNINGS TEST RESULTS AND TO THE COMPANY'S CALCULATION OF THE PROSPECTIVE REVENUE REQUIREMENT?

A. As shown in Exhibit LA-3, I have made the following adjustments, which are described in my testimony (including the AMI adjustment shown on Schedule OAG-16, which is recommended by testimony of Consumer Counsel witness Norwood):

- OAG-1, to remove Dominion's proposed major storm cost for prospective ratemaking, consistent with the Commission's Final Order in Case No. PUE-2013-00020, where a similar issue was addressed for Dominion.
- OAG-2, to remove lobbying expense that Dominion conceded should not have been included in earnings test cost of service.

- OAG-3 through OAG-4, to reverse the Company's earnings test adjustments to impair the early plant retirements that were made in 2019 and 2020, consistent with § 56-585.1 E.
- OAG-5, to reflect the 2019 regulatory asset Amortization Expense related to the 2019 generating plant early retirements.
- OAG-6, to reflect the 2019 carrying cost allowance related to the amortization of the regulatory asset balances for the 2019 generating plant early retirements.
- OAG-7, to reflect the 2020 Amortization Expense related to the 2019 and 2020 generating plant early retirements.
- OAG-8, to reflect the 2020 carrying cost allowance related to the 2019 and 2020 generating plant early retirements.
- OAG-9, to reflect the prospective Amortization Expense related to the regulatory assets for the 2019 and 2020 early retirements of generating plant.
- OAG-10, to reflect the 2020 carrying cost allowance related to the amortization of the regulatory assets related to the 2019 and 2020 early retirement of generating plant.
- OAG-11, to reflect my recommended adjustment to PJM Administrative Fees for prospective ratemaking.
- OAG-12, to adjust Payroll Expense and Payroll Tax Expense to account for workforce levels for prospective ratemaking.

- OAG-13, for interest synchronization, to reflect the impact of the different rate base to which the weighted cost of debt was applied to calculate the impact on income taxes for the interest tax deduction that is recognized for ratemaking purposes. This interest synchronization adjustment affects the 2017-2020 triennial earnings test period and affects the prospective ratemaking calculation of the revenue requirement.
- OAG-14, to reflect my recommended adjustment to uncollectibles expense for prospective ratemaking.
- OAG-15, to remove environmental expenses for prospective ratemaking.
- OAG-16, to remove AMI costs from the 2017-2020 earnings test period and for prospective ratemaking to reflect the recommendations of Consumer Counsel witness Scott Norwood.
- OAG-17, to remove employee benefits expense that Dominion conceded should not have been included in cost of service for prospective ratemaking.

III. BACKGROUND

Q. WHAT IS DOMINION'S ALLOWED ROE RANGE THAT APPLIES TO THE 2017-2020 TRIENNIAL EARNINGS REVIEW?

A. For the 2017-2020 triennial earnings review, Dominion's authorized ROE is 9.20 percent. This ROE was established by the Commission in its Final Order in the 2019 ROE proceeding, Case No. PUE-2019-00050. The allowed return range is 70 basis points above and below the 9.2 percent authorized ROE (i.e., 8.5 percent to 9.9 percent). Earnings within this band are deemed by law to be neither excessive nor insufficient.

Q. WHAT RETURN ON EQUITY DOES DOMINION REPORT FOR THE 2017-2020 TRIENNIAL EARNINGS REVIEW PERIOD?

A. Dominion reports an earned ROE of 10.42 percent for the combined 2017-2020 triennial earnings review period in its supplemental filing dated May 18, 2021. I have reproduced Dominion's calculations of this on Exhibit LA-1, Schedule A, page 1, column 1, and Schedule A, page 3, column 5.

Q. WHAT ARE THE RAMIFICATIONS IF DOMINION EARNS IN EXCESS OF 9.90 PERCENT?

A. In this Triennial Review, the provisions of Va. Code § 56-585.1 A 8 direct that the four years under review (2017, 2018, 2019 and 2020) are to be combined for purposes of the earnings determination. Consequently, the Company's historical ROE results for the triennial period of the four successive 12-month test periods ending December 31, 2020 must be evaluated in the context of whether they fall within or outside of the ROE earnings band of 8.50 to 9.90 percent. If the earned ROE is higher than 9.90 percent, which is the upper limit of the ROE earnings band, then action is required by law to refund a portion of those historical earnings or apply the Customer Credit Reinvestment Offset ("CCRO") provisions, if elected by the utility.

Q. HOW ARE THE RESULTS OF THE TRIENNIAL EARNINGS REVIEWS EVALUATED AND APPLIED?

A. Each discrete outcome from an earnings test in a Triennial Review demands a specific course of action under the Virginia Electric Utility Regulation Act, with possible available outcomes to include rate credits,[1] application of the CCRO,[2] no action,[3] or rate reductions.[4]

Q. WHAT IS THE STATUTORY BASIS FOR THIS PROCEEDING?

A. In 2018, the General Assembly passed legislation, the Grid Transformation and Security Act ("GTSA"), which purports to resume the Commission's authority to review the base rates of Dominion. While structurally similar, the base rate reviews now occur as part of a Triennial Review in place of the former Biennial Review schedule. Dominion was required by the GTSA to file its current Triennial Review on March 31, 2021, which Dominion did. To reflect corrections that were subsequently identified by the Company, Dominion supplemented its filing on May 18, 2021.

Q. SUBSEQUENT TO PASSAGE OF THE GTSA, DID THE GENERAL ASSEMBLY ENACT ANOTHER LAW THAT IS RELEVANT TO YOUR TESTIMONY AND RECOMMENDATIONS?

A. Yes. In 2020, after passage of the GTSA, the General Assembly enacted House Bill 528, which has been codified at Va. Code § 56-585.1 E. House Bill 528 passed with the following text:

> Be it enacted by the General Assembly of Virginia:
>
> § 1. Notwithstanding any other provision of law, the State Corporation Commission shall determine the amortization period for recovery of any appropriate costs due to the early retirement of any electric generation facilities owned or

[1] *Id.* § 56-585.1 A 8 b.

[2] *Id.* § 56-585.1 A d.

[3] *Id.* § 56-585.1 A 2 g.

[4] *Id.* § 56-585.1 A 8 c.

> operated by any Phase I Utility or Phase II Utility, as such terms are defined in subdivision A 1 of § 56-585.1 of the Code of Virginia. In making such determination, the State Corporation Commission shall (i) perform an independent analysis of the remaining undepreciated capital costs; (ii) establish a recovery period that best serves ratepayers; and (iii) allow for the recovery of any carrying costs that the Commission deems appropriate.

IV. 2019 AND 2020 IMPAIRMENT WRITE-OFFS FOR EARLY RETIREMENT OF GENERATING PLANT

Q. DOES THE COMPANY IDENTIFY ANY COSTS RELATED TO IMPAIRMENT COSTS ASSOCIATED WITH EARLY RETIREMENT DECISIONS FOR BASE RATE GENERATION UNITS DURING 2019 AND 2020?

A. Yes, the Company has recorded impairment write-offs in 2019 and 2020 associated with early retirement decisions for several base rate generation units during 2019 and 2020 ("early retirement costs").

Q. How have you treated Dominion's 2019 and 2020 impairment write-offs for those generating plant early Retirements?

A. As will be explained in additional detail in later sections of my testimony that discuss adjustments being presented in Exhibit LA-3, I have removed those impairment write-offs, and have instead reflected amortizations, with carrying costs being applied to the average unamortized balances, at a cost rate that is based on the Company's cost of long-term debt.

Q. WHAT RATEMAKING TREATMENT DOES THE COMPANY PROPOSE FOR THE EARLY RETIREMENT COSTS?

A. The Company seeks to apply the provisions of § 56-585.1, and specifically Subsection A 8, to the early retirement costs.

Q. DOES SUBSECTION A 8 APPLY TO THE EARLY RETIREMENT COSTS?

A. On advice of counsel, Subsection A 8 does not control the 2019 and 2020 impairments recorded by the Company for the early retirement costs. Ratemaking for these costs under § 56-585.1 E are addressed "notwithstanding" the other provisions of § 56-585.1 and must be done independently with an amortization that best serves ratepayers.

Q. HOW HAVE YOU TREATED DOMINION'S MARCH 2019 AND MARCH 2020 IMPAIRMENT WRITE-OFFS FOR THE EARLY RETIREMENTS?

A. As discussed below, I have removed those write-offs and have instead reflected amortizations, with carrying costs being applied to the average unamortized balances, at a cost rate that is based on the Company's cost of long-term debt. This treatment is consistent with the requirements Va. Code § 56-585.1 E.

Q. WHAT DOES SUBSECTION E REQUIRE FOR THESE COSTS?

A. The Commission is required to determine how the early retirement cost balance is to be amortized for purposes of cost recovery consistent with three instructions:

1) The Commission must perform an independent analysis of the remaining undepreciated capital costs.

2) The Commission must establish a recovery period that best serves ratepayers.

3) Finally, the Commission must allow for the recovery of any carrying costs that the Commission deems appropriate.

Q. DO YOU AGREE THAT THE PERIOD COST TREATMENT FOR THE EARLY RETIREMENT COSTS IS IN THE BEST INTEREST OF CUSTOMERS?

A. No. The Company claims that its proposed Subsection A 8 period treatment of the early retirement costs is in the best interest of customers. I disagree that expensing in the earnings test periods, as proposed by the Company, is in the best interest of customers. I do agree, however, that to the extent that period revenues within the allowed earnings band, already collected from customers, can be used to recover any or all of the early retirement costs, that would be in the best interest of customers. One benefit of this approach is that it can lessen the impact of these costs on future bills paid by customers.

Q. HOW DOES THE ACCOUNTING FOR EARLY GENERATING PLANT RETIREMENTS RELATE TO THE RECORDING AND AMORTIZATION OF REGULATORY ASSETS?

A. Long-standing Commission precedent has required an earnings test analysis before allowing extraordinary costs to be spread to the future by the creation of a regulatory asset. This allowed the spreading of costs to future customers only to the extent necessary, while allowing the utility to still earn within the authorized earnings band. Without this earnings test analysis, future customers could be unnecessarily burdened by multiple recoveries of all, or a partial amount, of deferred costs.

Q. WHAT IS AN INDEPENDENT ANALYSIS OF THE REMAINING UNDEPRECIATED EARLY RETIREMENT COSTS INVOLVE?

A. This prong is consistent with the Commission's historical use of an earnings test before allowing for deferred recovery of a regulatory asset. That is, notwithstanding § 56-585.1 A 8, the Commission must do an independent analysis to determine the balance, if any, of early retirement costs that need to be amortized for future recovery.

Q. HOW SHOULD THE COMMISSION CONDUCT ITS INDEPENDENT REVIEW OF THE REMAINING EARLY RETIREMENT COSTS?

A. Past Commission precedent would require an earnings test to the early retirement costs before amortizing these costs for future recovery. I understand that Commission precedent for electric utilities is to use the bottom of an earnings band for this analysis.

Q. WHAT IS THE EARNINGS BAND IN THIS CASE?

A. The statutory earnings band in this case is from 8.5 percent to 9.9 percent, using a 9.2 percent ROE. As shown in Exhibit LA-1, Schedule A, page 5, this represents approximately $265 million over the defined earnings test period, and an equivalent revenue amount of approximately $356 million. As all earnings above 8.5 percent are legally considered sufficient, this means that these earnings are available to reduce the early retirement regulatory asset balance which protects the best interest of future customers by avoiding multiple recoveries of the same cost. As explained by Staff in the context of Appalachian's 2014 biennial review (Case No. PUE-2014-00026), the Commission can use earnings within the earning band (i.e., for Dominion in the current case, this would be 70 basis points above and below the 9.20 percent ROE) to further reduce the balance of the early retirement costs so that the regulatory asset amount for those costs does not burden future ratepayers. Support for this approach has only been augmented by Va. Code § 56-585.1 E, which requires the Commission to perform an "independent analysis" of the remaining early retirement costs *and* establish a recovery period that "best serves ratepayers," while also allowing for the recovery of any carrying costs that the Commission deems appropriate.

Q. WHAT ABOUT EARNINGS ABOVE THE BAND?

A. After recognizing amounts that were used by Dominion to apply to customer arrearages and amounts, these earnings shall be returned to customers on a 70 percent basis as part of the CCRO mechanism to reduce the rate base amount associated with new investments, with the Company retaining the remaining 30 percent.

Q. WHAT RECOVERY PERIOD DO YOU RECOMMEND BEST SERVES RATEPAYERS?

A. As shown on Exhibit LA-3, Schedules OAG-3 and OAG-4, the Company's impairment write-offs in 2019 and 2020 should first be reversed. The amortization of these costs must be done in a manner that best serves customers. As shown on Exhibit LA-3, Schedules OAG-5 and OAG-7, amortization in 2019 and 2020 should be reflected for purposes of the earnings test. On Exhibit LA-3, Schedules

OAG-5 and OAG-7, I have used an amortization period of 25 years, which is in the best interest of customers and produces better results for customers than Dominion's proposed treatment does. As shown on Exhibit LA-3, Schedule OAG-5, for the 2019 amount, I used a starting date for the amortization of April 2019 and an amortization period of 25 years. As shown on Exhibit LA-3, Schedule OAG-7, for the 2020 amount, I used a starting date for that amortization of April 2020, and an amortization period of 25 years.

Q. MUST THE COMMISSION ALLOW FOR THE RECOVERY OF ANY CARRYING COSTS ON THE UNAMORTIZED REGULATORY ASSET AMOUNTS?

A. No. Hand-in-hand with providing a rate of return on rate base to shareholders is the premise that such utility plant in rate base is actually used and useful in providing utility service to customers. The very reason for these costs is that the underlying utility plant has been retired from service early and is no longer used or useful in the provision of electric service to customers. Therefore, no carrying cost – or return – need be determined appropriate. If the Commission is inclined to provide for a return on this regulatory asset that is not used and useful to customers, the Commission should refrain from awarding the Company with a full rate base return that includes full common equity-based return. Rather, the Commission should use the utility's cost rate of long-term debt as a carrying cost for this purpose.

Q. WHAT CARRYING COST RATE HAVE YOU APPLIED?

A. As shown on Exhibit LA-3, on Schedules OAG-6, OAG-8, and OAG-10, I have applied a carrying cost rate that is based on Dominion's cost of long-term debt for 2019, 2020, and for prospective ratemaking, respectively.

V. TRIENNIAL REVIEW PERIOD EARNINGS

Q. WHAT DOES DOMINION CLAIM FOR ITS 2017, 2018, 2019 AND 2020 TRIENNIAL REVIEW PERIOD EARNINGS RESULTS?

A. Dominion witness Ingram states at page 5 of his Supplemental Testimony that for the combined 2017-2020 Triennial Review period, Dominion's return was 10.42 percent, which was above the Commission authorized ROE of 9.20 percent (which is the midpoint of the earnings band of 8.50 to 9.90 percent). This is reflected in the Company's Schedule 11. On page 5 of his Supplemental Testimony, Mr. Ingram states that excluding "phantom" revenue associated with customer accounts forgiven during 2020, which was not actually collected, the Company's earned return would be 9.61 percent.

Q. WHERE DOES DOMINION PRESENT ITS EARNINGS TEST RESULTS FOR THE 2017-2020 TRIENNIAL REVIEW PERIOD?

A. The Company's Schedule 11C presents, on an earnings test basis, Dominion's Rate of Return Statement for the four earnings test years ended December 31, 2017, December 31, 2018, December 31, 2019 and December 31, 2020 for generation and distribution adjusted by the Company on a regulatory accounting basis. Column 1 of this schedule reflects the Virginia jurisdictional components of the Company's per books cost of service using a 13-month average rate base and common equity and excludes items related to the existing rate adjustment clauses pursuant to § 56-585.1 of the Code of Virginia. Column 2 of Schedule 11 reflects a series of regulatory accounting adjustments made by the Company, and Column 3 reflects the Company's adjusted Virginia jurisdictional cost of service.

Q. DO YOU AGREE WITH THE RESULTS OF THE COMPANY'S ANALYSIS ON ITS SCHEDULE 11?

A. No, my analysis produces a different result. I show that, with Consumer Counsel's recommended adjustments, during the 2017-2020 Triennial Review period, the Company had earnings of 13.81 percent. Like Dominion's results, which show earnings of 10.42 percent, this is in excess of 9.90 percent. After reviewing the Company's recorded amounts and accounting adjustments, I conclude that certain items were unreasonably included in the Company's earnings test calculation. On advice of counsel, I understand that the law does not require the inclusion of unreasonable items in the earnings test period. Consumer Counsel witness Norwood and I have also made recommendations which affect the calculation of Dominion's earnings during the 2017-2020 Triennial Review period. Therefore, I have made certain adjustments to remove or adjust these items in my calculation of Dominion's earnings test results.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING YOUR RECOMMENDED 2017, 2018, 2019 AND 2020 EARNINGS TEST RESULTS?

A. Yes. My earnings test calculations for each year in the 2017-2020 Triennial Review period are presented in Exhibit LA-1, and reflect the results of the adjustments that are being recommended by me and Consumer Counsel witness Norwood.

Q. WHAT CAPITAL STRUCTURE DID DOMINION USE TO COMPUTE ITS 2017, 2018, 2019 AND 2020 EARNINGS TEST CALCULATIONS?

A. The Company used an end-of-year capital structure and cost of capital for the 2017, 2018, 2019, and 2020 Earnings Tests, respectively.

Q. WHAT CAPITAL STRUCTURE DID YOU USE TO COMPUTE THE 2017, 2018, 2019 AND 2020 EARNINGS TEST CALCULATIONS FOR DOMINION?

A. I used the same capital structure that Dominion used to evaluate the 2017, 2018, 2019 and 2020 earnings test results, as shown on Exhibit LA-1, Schedule 2017-2 (for 2017), Schedule 2018-2 (for 2018), Schedule 2019-2 (for 2019) and Schedule 2020-2 (for 2020).

Q. WHAT IS THE RESULT OF YOUR ADJUSTMENTS ON DOMINION'S EARNINGS TEST CALCULATION?

A. As shown on Exhibit LA-1, Schedule A, page 1, I show on lines 30 and 31 that Dominion earned 9.23 percent on jurisdictional rate base and 13.81 percent on average common equity.

Q. HOW DOES THAT COMPARE TO DOMINION'S FILING?

A. As summarized on Exhibit LA-1, Schedule A, page 1, in column 1, Dominion's earnings test calculations on its supplemental Schedule 11 show earnings on average common equity of 10.42 percent for 2017, 2018, 2019 and 2020 combined. That is above the Commission-set earnings band of 8.50 to 9.90 percent. As summarized on Exhibit LA-1, Schedule A, page 1, with Consumer Counsel's adjusted results, I show that DEV had earnings on average common equity of 13.81 percent for 2017, 2018, 2019 and 2020 combined, which is also above the top of the authorized earnings band.

Q. WHAT IS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 1?

A. Schedule A of Exhibit LA-1, page 1 shows the adjusted earnings test results for the 2017-2020 Triennial Review period.

Q. WHAT IS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 2?

A. Schedule A, page 2, summarizes the Consumer Counsel's adjusted earnings test results for the 2017-2020 Triennial Review period. Dominion's jurisdictional adjusted earnings shown there are as follows:

- 14.53 percent for 2017
- 14.44 percent for 2018
- 11.00 percent for 2019
- 15.30 percent for 2020
- 13.81 percent for the combined 2017-2020 Triennial Review period

Q. WHAT IS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 3?

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A. Schedule A, page 3, summarizes the Triennial Review period Earnings Test results from the Company's supplemental filing, Schedule 11. As noted above, the Company's calculations show an earned ROE of 10.42 percent for the 2017-2020 Triennial Review period, which is shown on Exhibit LA-1, Schedule A, page 3, column 5, line 31.

Q. WHAT IS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 4?

A. On Exhibit LA-1, Schedule A, page 4, in column A, I have reproduced the Company's calculations. The Company calculated an earned ROE of 10.42 percent, which showed 0.52 percent of earnings available for sharing above the 9.9 percent top of the allowed ROE band. The Company applied that to a common equity rate base for the combined 2017-2020 earnings test years of $18.955 billion, to derive an amount of earnings for sharing of $97.956 million. Applying the income tax gross-up factor of 1.3428, the Company derived a revenue amount for sharing of $131.535 million, as I have reproduced on Exhibit LA-1, Schedule A, page 4, line 7.

The Company then applied $130.423 million and $75.911 million, as shown on lines 8 and 9 of my Schedule A, page 4, for customer arrearage forgiveness. This left a negative amount of approximately $75 million, as shown on line 10. Consequently, in the Company's calculation, there was no positive amount of over-earnings remaining after arrearage forgiveness. Had there been a positive amount remaining in the Company's calculations after arrearage forgiveness, the next step would be to apply the provisions of law related to the CCRO, which the Company claims would be $308.833 million, as shown on line 11, and lines 17 through 19.

Q. WHAT IS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 4, IN COLUMN B?

A. Returning to line 1 of column B, this shows the adjusted earned return of 13.81 percent, which is calculated on Exhibit LA-1, Schedule A, page 1. The 13.81 percent earned ROE exceeds the 9.90 ROE range by 3.91 percent (i.e., by 391 basis points). As shown on lines 3 through 5, this produces $740 million of earnings for sharing. Grossed up for income taxes, as shown on lines 6 and 7, the equivalent revenue amount for sharing is approximately $994.1 million.

As shown on Exhibit LA-1, Schedule A, page 4, lines 8 and 9, I have then applied the arrearage forgiveness amounts, using the same amounts for this that Dominion used. As shown on line 10, after applying the arrearage forgiveness amounts, $788 million remains for sharing.

As shown on column B, line 11, I then applied $255.653 million for the CCRO, which excludes cost for AMI projects. As shown on lines 17 through 19, in column B, the Company's claimed CCRO amount from Company Schedule 48(b) of its Supplemental Filing included $53.180 million of AMI projects. On advice of counsel, I understand that these amounts do not qualify as CCRO eligible investment because they were rejected by the Commission. The basis for this adjustment is addressed in detail by Mr. Norwood. Consequently, I have removed the AMI projects from the amount of CCRO, as shown on Schedule A, page 4, column B, lines 17-19.

After applying the CCRO amount, as shown on lines 12 and 13, an amount of $532.1 million remains for sharing. As shown on lines 14 and 15, the 70/30 sharing results in refunds to customers of approximately $372.5 million and retention by the Company of $159.6 million. On advice of counsel, I understand that this sharing is required by § 56-585.1 A 8 d.

Q. PLEASE EXPLAIN THE CALCULATIONS SHOWN ON EXHIBIT LA-1, SCHEDULE A, PAGE 5.

A. The calculations shown on Exhibit LA-1, Schedule A, page 5, calculate the amount of earnings within the earnings band that can be used, if applicable, for the recognition of regulatory asset amortization within the Triennial Review period. The Company's authorized earnings band for this Triennial Review period ranges from 8.50 percent to 9.90 percent. As shown on Exhibit LA-1, Schedule A, page 5, this earnings band equates to approximately $265 million of net income or approximately $356 million of revenue that is available within the earnings band for the recognition of regulatory asset amortization, as shown on lines 5 and 7, respectively.

Exhibit LA-1, Schedule A, page 5, lines 8-12 show that the Company's share of its excess earnings available for sharing in the amount of approximately $159.6 million, as shown on line 8, equates to an ROE impact of approximately 0.63 percent (i.e., 63 basis points). As shown at lines 13-15 of Exhibit LA-1, Schedule A, page 5, when added to 8.50 percent this produces an earned ROE for the Triennial Review period of 9.13 percent. That is, after the refund, which is required by law for the excessive earnings, and accelerated recovery of the early retirement costs, the Company will have earned an 8.50 percent ROE plus the 30 percent of retained excess earnings, or a 9.13 percent ROE in total.

Q. HOW DOES AN EARNED RETURN OF 9.13 PERCENT COMPARE TO OTHER PEER UTILITIES OF DOMINION?

A. Consumer Counsel witness Dr. Woolridge includes a Schedule JRW-11 in his exhibits, which is below:

Statutory Peer Group Floor Return on Equity
Return on Year-End Common Equity

	Electric Utility	Annual Return on Equity for 2020	Annual Return on Equity for 2019	Annual Return on Equity for 2018	Average of Annual Return on Equity for 2018, 2019, 2020	High/ Low Exclusions
1	Alabama Power Co.	11.72%	11.95%	12.44%	12.04%	H
2	Florida Power & Light Co.	11.16%	10.91%	10.33%	10.80%	H
3	Mississippi Power Co.	8.73%	8.41%	14.61%	10.58%	
4	Tampa Electric Co.	10.06%	10.01%	10.32%	10.13%	
5	Duke Energy Florida, LLC	10.16%	10.19%	9.09%	9.81%	
6	Duke Energy Carolinas, LLC	7.27%	10.95%	9.17%	9.13%	
7	Georgia Power Co.	9.54%	11.42%	5.54%	8.83%	
8	Entergy Mississippi Inc.	8.40%	7.78%	9.69%	8.62%	
9	Louisville Gas & Electric Co.	8.28%	8.40%	8.67%	8.45%	
10	Appalachain Power Company	8.51%	7.34%	9.18%	8.34%	
11	Kentucky Utilities Co.	7.40%	8.20%	8.31%	7.97%	L
12	Duke Energy Progress, LLC	4.48%	8.71%	7.90%	7.03%	L

On advice of counsel, I understand that the law requires the Commission to consider data related to past earnings of other statutorily defined peer utilities in awarding a new ROE. Based on end-of-year data, an earned return of 9.13 percent ranks sixth out of twelve earned returns averaged over the 2018-2020 period and appears to be in the middle of the range of earned ROEs for Dominion's peer utilities.

Q. WHAT IS SHOWN ON THE OTHER SCHEDULES IN EXHIBIT LA-1?

A. For each year, 2017, 2018, 2019, and 2020, in the Triennial Review period, Exhibit LA-1 also includes the following three schedules:

1) Rate of Return Statement – Earnings Test, which presents the adjusted Virginia jurisdictional earnings for that year;

2) Capital Structure and Cost Rates, which presents the capital structure, cost rates and overall cost of capital for that year; and

3) A summary of Consumer Counsel adjustments made to Dominion's Earnings Test results for that year.

Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING THE 2017, 2018, 2019, AND 2020 TRIENNIAL EARNINGS REVIEW.

A. As shown on Exhibit LA-1, Schedule A, page 1, in column 2, during the combined 2017, 2018, 2019 and 2020 Triennial Review period, I show that Dominion had an earned ROE on its Virginia jurisdictional generation and distribution utility operations of 13.81 percent, which is above 9.90 percent, i.e., is above the top of its authorized ROE range.

After applying amounts for customer arrearage forgiveness and CCRO, as shown on Exhibit LA-1, Schedule A, page 4, remaining earnings of $532 million are shared, with 70 percent of $372 million going to customers and $160 million being retained by Dominion. On advice of counsel, this sharing is required by Va. Code § 56-585.1 A 8 d as 100 percent of the excess earnings exceeds the aggregate level of CCRO investment.

<u>VI. RATEMAKING ANALYSIS – PROSPECTIVE REVENUE SUFFICIENCY</u>

Q. WHAT DOES DOMINION REQUEST FOR ITS RATEMAKING ANALYSIS?

A. At page 23 of Application, Dominion states that the rate year to be used in this Triennial Review is the twelve-month period ending December 31, 2022.

Dominion's prospective ratemaking analysis shows a $120.591 million deficiency in the Company's base rate revenues.

Q. DO YOU AGREE WITH DOMINION'S CALCULATION OF THAT PROSPECTIVE BASE RATE REVENUE DEFICIENCY?

A. No, my analysis reflects a different result. Using the cost of capital and ROE recommended by Consumer Counsel witness Woolridge and reflecting the adjustments recommended by Consumer Counsel witness Norwood and myself, I calculate that Dominion would have a revenue sufficiency of at least $149 million for its Virginia jurisdictional generation and distribution operations, as shown on Exhibit LA-2, Schedule A, page 1.

Q. WHAT IMPACT DOES THE RETURN ON EQUITY HAVE ON WHETHER DOMINION HAS A PROSPECTIVE REVENUE DEFICIENCY FOR THE RATE YEAR?

A. As shown on Exhibit LA-2, Schedule D, I have reflected Dr. Woolridge's recommended ROE of 8.875 percent rather than Dominion's proposed ROE of 10.80 percent. As shown on Exhibit LA-2, Schedule A page 4, column C, line 1, the impact on the prospective revenue requirement associated with using Dr. Woolridge's recommended cost of capital is approximately $134.736 million.

Q. WHAT IS THE APPROXIMATE IMPACT OF A 10 BASIS POINT CHANGE IN THE ROE FOR PROSPECTIVE RATEMAKING?

A. Each change of 10 basis points of ROE would impact the Company's prospective revenue requirement by approximately $6.8 million on the Consumer Counsel's adjusted rate base. Thus, even assuming a 10.80 percent ROE, as requested by the

Company, my prospective ratemaking analysis would still show a revenue sufficiency.

Q. WHAT DOES EXHIBIT LA-2, SCHEDULE A SHOW?

A. Exhibit LA-2, Schedule A, page 1, column A, presents DEV's calculation of its proposed rate year revenue deficiency of $120.591 million.

Column B shows the revenue requirement calculation that results from my recommendations and the recommendations of Consumer Counsel witnesses Norwood and Woolridge. Contrary to Dominion's claimed revenue deficiency, as shown on line 7 of Column B, the results of the Consumer Counsel's recommendations reflect a base rate revenue sufficiency for Dominion's Virginia retail jurisdiction of approximately $149 million for Dominion's combined Virginia jurisdictional generation and distribution operations.

However, there is a $50 million statutory limitation on the amount of revenue requirement reduction that can be ordered by the Commission in the current proceeding. Because the $50 million maximum base rate revenue reduction is lower than the calculated amount of revenue sufficiency, I am recommending a base rate revenue reduction of $50 million for Dominion in the current proceeding for prospective ratemaking.

Q. WHAT IS SHOWN ON EXHIBIT LA-2, SCHEDULE A, PAGES 2 AND 3?

A. Schedule A, page 2, presents similar information for Dominion's jurisdictional generation operations for prospective ratemaking. Schedule A, page 2, column A, reproduces the results from Dominion's supplemental filing, which show a generation revenue excess of approximately $248.3 million. Consumer Counsel's adjusted results show a revenue excess of approximately $383.6 million for generation.

Schedule A, page 3, presents similar information for Dominion's jurisdictional distribution operations for prospective ratemaking. Schedule A, page 2, column A, reproduces the results from Dominion's supplemental filing, which show a distribution revenue deficiency of approximately $368.9 million. Consumer Counsel's adjusted results show a revenue deficiency of approximately $190.7 million for distribution.

Q. WHAT IS SHOWN ON EXHIBIT LA-2, SCHEDULE A, PAGE 4?

A. Schedule A, page 4, shows a reconciliation of the combined generation and distribution revenue requirement, showing the approximate revenue requirement impact of each of the Consumer Counsel adjustments, including the impact of the cost of capital recommendation of Dr. Woolridge and the rate base and net operating income adjustments that I and Mr. Norwood are recommending.

Q. WHAT IS SHOWN ON SCHEDULE A-1 OF EXHIBIT LA-2?

A. Schedule A-1 shows the gross revenue conversion factor (GRCF), which is used to convert net operating income into equivalent revenue requirement amounts. As shown in column A, I have reproduced the GRCF of 1.352219 that was reflected in Dominion's supplemental application. As shown on Schedule A-1, in column D, I have calculated and used a GRCF of 1.346929 in my revenue requirement calculations. My use of the Dominion corrected GRCF of 1.346929 is also shown on Exhibit LA-2, Schedule A, pages 1, 2 and 3, in column B, line 6, on each of those schedules. The difference in the GRCF from the one that was reflected in

Dominion's supplemental application relates to my use of a lower factor for uncollectibles. I discuss the difference in the uncollectibles recommendation for prospective ratemaking in a subsequent section of my testimony in conjunction with adjustment OAG-14.

Q. PLEASE EXPLAIN SCHEDULES B AND C OF EXHIBIT LA-2.

A. The adjustments presented on Schedule A which impact rate base are shown on Schedule B. Schedule B.1 summarizes Consumer Counsel's recommended rate base adjustments that affect the Virginia jurisdictional rate base for Dominion that is being used for prospective ratemaking purposes.

Schedule C presents adjusted net operating income. Schedule C.1 summarizes Consumer Counsel's recommended adjustments to revenue and expenses applicable to the prospective ratemaking analysis. Schedule C.1 also presents the impact on income tax expense resulting from each of Consumer Counsel's recommended adjustments.

Q. DO YOU HAVE AN EXHIBIT WHICH PRESENTS THE DETAILS OF EACH ADJUSTMENT?

A. Yes. The details of the recommended Consumer Counsel adjustments are shown on Exhibit LA-3. Schedules OAG-1 through OAG-17 of Exhibit LA-3 present supporting calculations for the adjustments that Consumer Counsel's witnesses are sponsoring to net operating income for Dominion's combined Virginia jurisdictional generation and distribution operations.[5]

[5] The adjustments shown on Exhibit LA-3 include details for adjustments for the 2017, 2018, 2019, and 2020 earnings test period, as well as for the prospective December 31, 2022 rate year revenue requirement. Note that the some of the adjustments affect only the prospective ratemaking results, some affect only the earnings test results and some affect both the earnings test and prospective ratemaking results.

Q. WHAT IS SHOWN ON EXHIBIT LA-2, SCHEDULE D?

A. Exhibit LA-2, Schedule D includes the capital structure and cost rates that I used to calculate my recommended revenue requirement in this case. As noted above, I used an overall cost of capital of 6.638 percent based on the Company's December 31, 2020 capital structure and an ROE of 8.875 percent, both of which are based on the recommendations of Consumer Counsel witness Woolridge.

Q. SHOULD THE FACT THAT YOU OR OTHER CONSUMER COUNSEL WITNESSES MAY NOT HAVE ADDRESSED SOME OF THE RATEMAKING ADJUSTMENTS PROPOSED BY DOMINION INDICATE THAT YOU AGREE WITH THE COMPANY'S ADJUSTMENTS OR BE ANY INDICATION THAT ADDITIONAL ADJUSTMENTS SHOULD NOT BE MADE?

A. No. Additionally, we reserve the right to review the testimony being filed by other parties including Commission's Staff and note that another party to this proceeding may have additional adjustments that merit consideration.

VII. RECOMMENDED ADJUSTMENTS

Q. WHAT IS SHOWN ON EXHIBIT LA-3?

A. Exhibit LA-3 presents the adjustments to rate base and operating expenses that are being recommended by Consumer Counsel's witnesses. Each of Consumer Counsel's recommended revisions to rate base and operating expenses is presented below in the same order in which such adjustments are presented on Exhibit LA-3.

OAG-1, Major Storm Damage Costs

Q. WHAT HAS DOMINION PROPOSED FOR MAJOR STORM EXPENSE FOR PROSPECTIVE RATEMAKING?

A. As discussed on page 23 of the Direct Testimony of Company witness McLeod and shown in the Company's filing at Schedule 29(d), Adjustment RM-29, the Company proposes to use a three-year average of 2018, 2019, and 2020 storm costs (including non-labor costs as well as overtime expense) as the basis for its proposed major storm cost for prospective ratemaking. The Company's proposed three-year average storm cost of $52.493 million in total is $44.319 million on a Virginia jurisdictional basis.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR THE REMOVAL OF MAJOR STORM COST FOR PROSPECTIVE RATEMAKING.

A. As shown on Exhibit LA-3, Schedule OAG-1, this adjustment removes the $44.319 million of jurisdictional expense proposed by Dominion. The Commission confirmed in the Dominion 2013 Biennial Review Final Order (Case No. PUE-2013-00020) that under the statutory framework for electric utility biennial earnings reviews and prospective ratemaking, it was not appropriate to include estimated costs for future storm damage in operating expenses for prospective ratemaking. At pages 16 of that Final Order, the Commission stated that:

> We find that major storm damage expense *shall not be included as a normalized expense for ratemaking.* Section 56-585.1 A 8, as quoted above, allows Dominion to defer and recover costs associated with "severe weather events" under certain circumstances. Since the Company equates major storm damage expense to "severe weather events", the statute ensures that Dominion has an opportunity to recover these costs; thus, *we find that a normalized expense is not required for ratemaking purposes.*

> This finding reduces rate year O&M expense by approximately $61.3 million.
>
> (footnotes omitted) (emphasis added).

The basis for this decision as it related to biennial reviews is equally applicable to the current Triennial Review process. Consequently, Dominion's proposed expense of $52.493 million for major storm expense in total, and $44.319 million on a Virginia jurisdictional basis, should be removed for prospective ratemaking, which I have done on Exhibit LA-3, Schedule OAG-1.

Q. WAS A SIMILAR ADJUSTMENT TO REMOVE A UTILITY'S MAJOR STORM COST FOR PROSPECTIVE RATEMAKING MADE IN APPALACHIAN'S 2014 BIENNIAL?

A. Yes. At pages 41-42 of that Final Order, the Commission stated that:

> The Company includes an estimate of major storm damage expense for the prospective rate year. We agree with Consumer Counsel and Staff that under the current statutory framework for biennial reviews, *it is no longer appropriate to include an estimated cost for future major storm damage in operating expenses for prospective ratemaking*. Section 56-585.1 A 8 allows APCo to defer and recover costs associated with "severe weather events" under certain circumstances. This statute provides APCo the opportunity to recover these costs. Thus, we find that major storm damage expense *should not be included as a normalized expense for ratemaking* and should be removed from the prospective rate year. *We further note, as referenced by Consumer Counsel, that we required the same treatment by Dominion Virginia Power in its most recent biennial review.*

(footnotes omitted) (emphasis added).

OAG-2, Lobbying Costs in Earnings Test Period

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR LOBBYING COSTS IN THE EARNINGS TEST PERIOD.

A. In its corrected response to Staff 17-360, the Company identified lobbying costs totaling $5.387 million on a total system basis that should have been excluded from cost of service over the 2017-2020 earnings test period.[6] Therefore, my adjustment removes these lobbying costs totaling $5.387 million from earnings test cost of service as follows: $1.358 million for 2017, $1.569 million for 2018, $1.440 million for 2019 and $1.021 million for 2020.

As shown on Exhibit LA-3, Schedule OAG-2, after reflecting each of these amounts for the years noted, coupled with applying Virginia jurisdictional allocators and Generation and Distribution factors that were provided in the Company's response to Staff 19-383, my adjustment reduces earnings test O&M expense on a Virginia jurisdictional basis as follows:

1) $882,000 in 2017 ($548,000 – Generation and $334,000 – Distribution);
2) $1.011 million in 2018 ($622,000 – Generation and $389,000 – Distribution);
3) $925,000 in 2019 ($577,000 – Generation and $348,000 – Distribution); and
4) $658,000 in 2020 ($407,000 – Generation and $251,000 – Distribution)

[6] In its responses to Staff 3-77 and the original response to Staff 17-360, Dominion indicated that the lobbying costs totaling $5.297 million should have been excluded over the 2017-2020 earnings test period.

This results in an overall reduction of $3.476 million on a Virginia jurisdictional basis.

<u>OAG-3, 2019 Impairments for Early Plant Retirements</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-3?

A. In 2019, Dominion recorded impairments related to the retirement of coal-fired generating units. Exhibit LA-3, Schedule OAG-3, page 2, shows the amounts of remaining net book value of the generating units that were retired. Dominion recorded an impairment write-off of $307 million for the remaining net book value of those retired generating units, as shown on Exhibit LA-3, Schedule OAG-3, page 2, line 39, column C. The corresponding Virginia jurisdictional amount is $248.275 million, as shown on Schedule OAG-3, page 2, line 41.

As part of that 2019 impairment, Dominion also wrote off $15.886 million in Construction Work in Progress (CWIP) and $20.890 million in inventory related to those units. Details for the CWIP and inventory portion of the impairment are summarized on Schedule OAG-3, page 3. The corresponding jurisdictional amount for the CWIP and inventory portion of the 2019 plant early retirement impairment is $29.685 million, as shown on Schedule OAG-3, page 3.

The adjustment shown on Schedule OAG-3, page 1, removes the Company's 2019 impairment write-off, which increases pre-tax jurisdictional operating income by $277.960 million.

Rather than reflect this impairment cost in the earnings test results as presented by the Company, I have performed an independent analysis of the remaining early retirement costs to be amortized over a future period in a manner that best serves ratepayers, as required by Va. Code § 56-585.1 E. The related adjustments to reflect the amortization and carrying costs on the related regulatory asset amount are addressed in adjustments OAG-5 through OAG-10, and are discussed below.

<u>OAG-4, 2020 Impairments for Early Plant Retirements</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-4.

A. In 2020, Dominion recorded impairments related to the retirement of coal-fired generating units. Exhibit LA-3, Schedule OAG-4, page 2, shows the amounts of remaining net book value of the generating units that were retired. On March 31, 2020, Dominion recorded an impairment write-off of $783.618 million for the remaining net book value of the Chesterfield and Yorktown power stations to reflect the early retirement of those generating units, as shown on Exhibit LA-3, Schedule OAG-4, page 2 in column A. Additional details of the components of the $783.618 million original impairment write-off amount are shown on Schedule OAG-4, page 3. Inclusive of two true-up entries recorded in 2020 (which are shown in columns B and C of Schedule OAG-4, page 2), the adjusted impairment write-off amount reflected by the Company in 2020 for these retirements was $781.162 million. The corresponding Virginia jurisdictional amount is $644.199 million, as shown on Schedule OAG-4, page 2, in column F.

The adjustment shown on Schedule OAG-4, page 1, removes the Company's 2020 impairment write-off, which increases pre-tax jurisdictional operating income by $644.199 million.

Rather than reflect this impairment cost in the 2020 earnings test results as presented by the Company, I have performed an independent analysis of the remaining early retirement costs to be amortized over a future period in a manner that best serves ratepayers, as required by § 56-585.1 E. The related adjustments to reflect the amortization and carrying costs on the related regulatory asset amount are addressed in adjustments OAG-5 through OAG-10, and are discussed below.

<u>OAG-5, Amortization Expense Related to 2019 Impairments</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-5.

A. Schedule OAG-5 presents my recommended amortization in 2019 of the Virginia jurisdictional amounts related to the Company's 2019 impairment write-off. Column A shows the Virginia jurisdictional amount for the $277.960 million impairment from Schedule OAG-3. The derivation of the $277.960 million Virginia jurisdictional amount that is being amortized is also shown on Schedule OAG-5, page 2. On Schedule OAG-5, page 1, I have reflected a 25-year amortization, commencing in April 2019. This produces monthly amortization amounts of $926,533 and amortization in 2019 of $8.339 million, as shown on Schedule OAG-5, in column B.

Schedule OAG-5, in column C, shows the remaining unamortized monthly balances for the period April 1, 2019 through December 31, 2019. The Virginia jurisdictional 13-month average of those balances is also shown in column C, on line 15.

<u>OAG-6, Carrying Cost Allowance Related to 2019 Impairments</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-6.

A. Section 56-585.1 E permits the Commission to select an appropriate carrying cost rate for regulatory assets related to early retirement of generating plant. As shown on Exhibit LA-1, Schedule OAG-6, I have applied the cost rate for long-term debt to the 13-month average 2019 regulatory asset balance of $210.608 million, less related accumulated deferred income taxes (ADIT). The resultant carrying costs of $6.981 million for 2019 are reflected as a pre-tax operating expense in determining Dominion's earnings results for 2019.

Q. WHAT IS THE BASIS FOR USING THE COST OF LONG-TERM DEBT FOR COMPUTING CARRYING COSTS ON THIS REGULATORY ASSET, RATHER THAN A FULL RATE BASE COST-OF-CAPITAL?

A. The regulatory asset relates to generating plants that were retired early and are no longer providing service. After retirement, those units no longer provide utility service to customers. Allowing the recovery of the costs, via an amortization, provides for the recovery of such costs. Ratepayers should not continue to provide an equity return profit on generating assets that have been retired from service and are no longer used and useful in the provision of electric service. Allowing for cost recovery (return of) and for debt-based carrying costs (return on) the costs of retired, no longer used generating plant, represents a better balancing of the interests of the utility and ratepayers as the regulatory asset is amortized.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION CONCERNING COST RECOVERY FOR THE REMAINING INVESTMENT OF THE EARLY RETIRED GENERATING UNITS REGULATORY ASSET THAT IS BEING AMORTIZED.

A. I recommend allowing recovery of the costs of these electric generating units that are being retired by using a 25-year amortization period for the remaining net book value and other impaired assets (such as CWIP and inventory). I recommend allowing carrying costs at the Company's cost of long-term debt.

<u>OAG-7, Amortization Expense Related to 2019 and 2020 Impairments</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-7.

A. Similar to the amortization of the regulatory asset related to the 2019 impairment that was previously discussed and which is shown on Exhibit LA-3, Schedule OAG-5, the amortization for 2020 that is shown on Schedule OAG-7 continues the amortization of the regulatory asset related to the 2019 impairment by reflecting the monthly amortization amounts of $926,533 per month. The amortization of the 2019 impairment over 25 years is shown in column B.

Additionally, the amortization of the regulatory asset related to the 2020 generating plant early retirement in the Virginia jurisdictional amount of $644.199 million (as shown in column D) over a 25-year period, commences in April 2020.

Details pertaining to the Virginia jurisdictional amount of $644.199 million are presented on Schedule OAG-7, page 2.

The monthly amortization amounts of $2,147,330 for April through December 2020 total $19.326 million, as shown on Schedule OAG-7, page 1, in column E. The sum of the amortizations of the regulatory assets related to the 2019 and 2020 impairments are shown for each month of 2020 in column G, and total $30.444 million. The $30.444 million total in column G is added to 2020 pre-tax operating expenses for purposes of the 2020 earnings test.

Unamortized balances for the regulatory assets are shown on Schedule OAG-7, page 1, in column C for the 2019 regulatory asset and in column F for the 2020 regulatory asset related to the generating plant early retirements. The combined unamortized balances are summarized in column H, where a 13-month average for 2020 of $752.2 million is calculated, as shown on line 16. The 13-month average balance is used on Schedule OAG-8 for computing carrying costs.

OAG-8, Carrying Cost Allowance Related to 2019 and 2020 Impairments

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-8.

A. Schedule OAG-8 shows the calculation of 2020 carrying costs on the 13-month average unamortized regulatory asset balances related to the early retirement of generating plants in 2019 and 2020. The Virginia jurisdictional 13-month average balances are show on line 1. Related ADIT is calculated using the combined state and federal income tax rate of 26.6255 percent, as shown on lines 2 and 3. Line 4 shows the related average unamortized balances, net of ADIT. Details of the ADIT derivation using the combined state and federal income tax rates are shown on Schedule OAG-8, page 2. The long-term debt cost rate for 2020, from Exhibit LA-1, Schedule 2020-2, is used as the carrying cost rate, as shown on Exhibit LA-3, Schedule OAG-8, line 5. The reasons for using the long-term debt cost rate were described above, in conjunction with adjustment OAG-6. The $24.178 million carrying cost shown on Exhibit LA-3, Schedule OAG-8, page 1, in column C, on line 6, is reflected as a pre-tax operating expense in calculating Dominion's 2020 earnings, as shown on Exhibit LA-1, Schedule 2020-3.

OAG-9, Amortization Expense Related to 2019 and 2020 Impairments for Prospective Ratemaking

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-9.

A. The adjustment on Schedule OAG-9 reflects the annual amortization of the regulatory asset related to the early retirement of generating plants for purposes of prospective ratemaking. Line 1 shows the unamortized balance, before adjustment, at December 31, 2020 of $883.376 million, from Schedule OAG-7, column H, line 13.

There is $356.042 million within the authorized 2017-2020 earnings band, within which recognition of regulatory assets can be obtained. Exhibit LA-1, Schedule A, page 5 shows the derivation of the $356.042 million, as being the amount within the authorized 140 basis point earnings range, from 8.50 percent to 9.90 percent. Because an amount of $356.042 million of regulatory assets can be recognized as recovered by revenues within the authorized earnings band for the instant review period, that amount is not carried forward into future periods for prospective ratemaking treatment. The $356.042 million amount is removed on Exhibit LA-3, Schedule OAG-9, line 2, because the review period revenues are sufficient to reduce the "remaining undepreciated costs" by that amount.

The remaining amount of $527.334 million continues to be amortized over the original 25-year amortization period. As of December 31, 2020 there would be approximately 23.25 years remaining in the amortization, which for the 2019 generating plant early retirement costs commenced in April 2019. The remaining annual and monthly amortization amounts are shown for 2021 and 2022 on Exhibit LA-3, Schedule OAG-9. The annual amortization of $22.681 million is reflected as a pre-tax operating expense for prospective ratemaking, as shown on Exhibit LA-2, Schedule C-1.1.

<u>OAG-10, Carrying Cost Related to 2019 and 2020 Impairments for Prospective Ratemaking</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-10.

A. Schedule OAG-10 shows the carrying cost allowance for prospective ratemaking. The VA jurisdictional 13-month average unamortized balance of the remaining regulatory asset that relates to the generating plant retirements, net of related ADIT, is multiplied by the cost rate for long-term debt, to derive the carrying cost allowance for prospective ratemaking. The $15.857 million amount shown on Schedule OAG-10, line 6, is reflected as a pre-tax operating expense in deriving net operating income for Dominion for prospective ratemaking.

<u>OAG-11, PJM Administrative Fees for Prospective Ratemaking</u>

Q. PLEASE EXPLAIN YOUR ADJUSTMENT ON EXHIBIT LA-3, SCHEDULE OAG-11.

A. As discussed on page 17 of the Direct Testimony of Company witness McLeod, the Company reflected the escalation of generation-related PJM administrative fees from the 2020 test year to the 2022 Rate Year for a Rate Year amount of $20.311 million as shown on Adjustment No. RM-8 from the Company's supplemental filing. As part of calculating its proposed Rate Year PJM administrative fees of $20.311 million, the starting point of the Company's adjustment included 2020 Rider T1 PJM administrative fees of $16.625 million. The Company subtracted the 2020 test year amount of $15.804 million for a total system adjustment of $4.507 million then applied the Virginia jurisdictional factor for a Virginia jurisdictional adjustment of $3.694 million.

In its response to Staff 8-370, which requested that Dominion explain why it used the $16.625 million noted above as the starting point for its proposed Rate Year adjustment rather than the test year amount of $15.804 million, the Company stated that at the time the 2022 budget was developed during the fourth quarter of 2020, the $16.625 million was used as an estimate for developing the 2022 Generation PJM administrative fees budget. Therefore, I have recalculated the PJM administrative fees for prospective ratemaking using the test year amount of $15.804 million as the starting point of my adjustment.

As shown on Exhibit LA-3, Schedule OAG-11, after applying the Company's DOMLSE[7] allocation factor of 84.31 percent to the test year amount of $15.804 million followed by a 3 percent escalation factor[8], I have calculated PJM administrative fees of $19.307 million on a total system basis for prospective ratemaking. When compared to the Company's proposed Rate Year PJM administrative fees, coupled with applying the Virginia jurisdictional allocation factor, my adjustment reduces O&M expense for prospective ratemaking by $822,610 on a Virginia jurisdictional basis.

<u>OAG-12, Payroll Expense – Workforce Levels for Prospective Ratemaking</u>

Q. WHAT HAS DOMINION PROPOSED FOR PAYROLL EXPENSE WITH RESPECT OF WORKFORCE LEVELS FOR PROSPECTIVE RATEMAKING?

A. As discussed on page 19 of the Direct Testimony of Company witness McLeod, the Company proposes what it refers to as a return to full staffing levels at both Dominion Energy Virginia ("DEV") and Dominion Energy Services, Inc. ("DES") for the 2022 Rate Year following uncertainties presented by the COVID-19 pandemic and to support the Company's plans as it relates to the Virginia Clean Economy Act ("VCEA").

Specifically, as shown on Company Schedule 29(d), Adjustment No. RM-16, for DEV, the Company is proposing a forecasted increased headcount of 199

[7] DOMLSE stands for Dominion Energy Load Serving Entity.

[8] According to the response to Staff 8-176, the 3 percent escalation factor is based on the 5-year compound annual growth rate ("CAGR") of actual Generation PJM adminstative fees for the period 2015 through 2020.

employees for 2022. This includes the proposed addition of 70 nuclear employees and 53 fossil and hydro employees for a total of 123 additions for Generation for the 2022 Rate Year. For DEV Distribution, Dominion is proposing the addition of 76 employees for the 2022 Rate Year.

For DES, the Company is proposing a forecasted increased headcount of 248 employees. This includes the proposed addition of 79 BU Managed DES employees and 169 Other DES employees for the 2022 Rate Year.

Q. HOW DID THE COMPANY CALCULATE ITS PROPOSED ADJUSTMENT TO INCREASE PAYROLL EXPENSE FOR PROJECTED WORKFORCE ADDITIONS?

A. As discussed in Mr. McLeod's testimony, the Company's proposed adjustment is measured based on the projected number of new hires and calculated by average salaries and benefits for 2022.

For Dominion, the Company multiplied the projected number of new employees by the average budgeted 2022 salaries associated with nuclear, fossil and hydro (Generation) and Distribution to derive its forecasted increase in salaries and wages. The Company then multiplied these amounts by a benefits factor for Generation and Distribution to derive its forecasted increase in benefits associated with the proposed increase in headcounts. The Company then summed the forecasted increase in salaries and wages and forecasted benefits.

For DES, the Company multiplied the projected number of new employees by the average 2020 salaries (escalated by 2021 and 2022 merit increases of 3 percent in each year) associated with BU Managed DES employees and Other DES employees to derive the forecasted increase in salaries and wages for DES. These amounts were then multiplied by a benefits factor derive the forecasted increase in benefits associated with the proposed increase in DES headcounts. The Company then summed the forecasted increase in salaries and wages and forecasted benefits and applied the billing percentages of DES charges to Dominion that are applicable to each employee category for Generation and Distribution.

As shown on the Company's Schedule 29(d), Adjustment No. RM-16 from the Company's supplemental filing, after applying Dominion and DES expense factors as well as the Virginia jurisdictional allocation factors for Generation and Distribution, the Company proposes to increase payroll expense related to its forecasted workforce levels in 2022 by $24.159 million on a Virginia jurisdictional basis. The Company's $24.159 million amount includes payroll and employee benefits. The benefits are incorporated into the Company's proposed labor adjustments using benefits factors.

Q. WHAT TYPES OF BENEFITS ARE INCLUDED IN THE DEV BENEFITS FACTORS?

A. As shown in the response to Staff 9-212, the benefits factors for nuclear, fossil and hydro (Generation) and Distribution employees include (1) budgeted 2022 pension, (2) budgeted 2022 OPEB, (3) budgeted 2022 benefits – other, and (4) budgeted 2022 employee savings plan.

Q. WHAT TYPES OF BENEFITS ARE INCLUDED IN THE DES BENEFITS FACTORS?

A. As shown in the response to Staff 9-213, the benefits factors for DES employees include the following types of benefits:

Description of DES Employee Benefits
Employee Benefits - Medical
Employee Benefits - Dental / Vision
Employee Benefits - Life Insurance
Employee Benefits - Disability
Employee Benefits - ME Pension Service
Employee Benefits - ME OPEB Service Cos
Employee Benefits - ME Pension NSC
Employee Benefits - ME OPEB NSC
Employee Benefit Plan Administration
Executive Supplemental Compensation Pro
Employee Benefits - Savings Plan
Other Employee Benefits - Miscellaneous
Transfer/Relocation Expense
Tuition Reimbursement Expense
CA-Emp Bfit-Medical
CA-Emp Bfit-Other
CA-Emp Bfit-OPEB
CA-Emp Bfit-Pensions
CA-Exec Supp Comp
Admin & General - Employee Benefits
Salaried - Vacation Accrual
A&G Benefits - Long-term Incentive Plan
Salaried - Annual Incentive
Hourly - Vacation Accrual
Hourly - Annual Incentive
Source: Staff 9-213

Q. WITH REGARD TO DES, WHAT IS THE DISTINCTION BETWEEN BU MANAGED DES AND OTHER DES?

A. According to the response to Staff 9-215, BU Managed DES is primarily representative of groups that organizationally report to business unit leadership within Dominion. Other DES is comprised of all other groups, which do not report to business unit leadership within Dominion.

Q. DID THE COMPANY PROVIDE INDIVIDUAL JOB TITLES FOR THE PROPOSED ADDITIONS OF 199 DEV EMPLOYEES AND 248 DES EMPLOYEES?

A. No. With regard to Dominion, in its response to Staff 21-448, the Company stated that the information for the proposed addition of 199 Dominion employees is not available by job title. With regard to DES, in its response to Staff 21-449, the Company stated incremental employees are not managed by job title, but at the business area level.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED INCREASES IN WORKFORCE LEVELS FOR DOMINION AND DES FOR PROSPECTIVE RATEMAKING PURPOSES?

A. Not entirely. As noted above from Mr. McLeod's Direct Testimony, the Company's proposed adjustment to reflect the addition of 199 Dominion employees and 248 DES employees is due to uncertainties resulting from the COVID-19 pandemic and to support the Company's plans for the VCEA. However, the information provided by the Company shows continuing high levels of vacancies through June 2021 (the most current information available) in the Company's response to OAG 12-258.

The Company's response to OAG 12-258 states that it has experienced delays in hiring during the test period as a result of the pandemic. The Company was not able to provide, and stated that it has not performed, a specific analysis related to how many of the projected 199 Dominion positions and 248 DES positions relate to COVID-19.

As it relates to how many of the proposed Dominion and DES positions relate to the VCEA, in its response to Staff 21-447, the Company stated:

> The Company expects an increased headcount relative to the test period as the requirements of the VCEA are developed and executed. For example, the Project Construction group was created in September 2020 to manage major construction programs across Dominion Energy, Inc. including DEV. Most of these incremental full-time positions hired after formation of the group are supporting the solar and offshore wind construction programs per the requirements of the VCEA. An example with respect to the Power Delivery Group: The number of project applications in the PJM Queue for the DOM Zone has increased significantly over the last six to twelve months, many of which are related to the VCEA. This will likely increase staffing needs for the Transmission and Distribution teams. *At this time, the Company has not prepared specific analysis on headcount related to the VCEA.*

(emphasis supplied).

As noted above, the Company has not performed an analysis on the projected headcounts for either the COVID-19 pandemic or the VCEA.

Q. WHEN DOES DEV ANTICIPATE FILLING ALL OF THE PROJECTED DEV AND DES POSITIONS?

A. In its response to OAG 12-258, the Company stated that its assumption for budgeting purposes is that hiring will resume and that all of its vacancies will be filled before or during 2022.

Q. THROUGH JUNE 30, 2021, HOW MANY VACANCIES DID EACH COMPANY HAVE?

A. In its response to OAG 12-258, the Company provided the following table, which shows Dominion's and DES' actual vacancies as of June 30, 2021 as compared with the vacancies reflected in Company Adjustment No. RM-16 that the Company projects to have filled in 2022 and the resulting difference:

Description	Vacancies as of 6/30/2021	Vacancies to be Filled Before or During 2022 Per RM-16	Difference
DEV			
Nuclear	91	70	21
Fossil & Hydro	66	53	13
Distribution	23	76	-53
Total	180	199	-19
DES			
BU Managed DES	34	79	-45
Other DES	118	169	-51
Total	152	248	-96
Source: OAG 12-258			

As shown in the above table, as of June 30, 2021, Dominion had 180 total vacancies versus the 199 positions to be filled before or during 2022 that were reflected in Adjustment No. RM-16 for an overall difference of 19 vacant positions having been filled by June 30, 2021. In addition, DES had 152 vacancies as of June 30, 2021. In comparison with 248 positions reflected in Adjustment No. RM-16, this suggests that as of June 20, 2021, 96 of those vacant positions were filled and 152 remained vacant (i.e., were not yet filled).

Q. DID THE COMPANY TRACK ITS VACANCIES DURING THE EARNINGS TEST PERIOD 2017-2020 AND THROUGH 2021 TO DATE?

A. No. In its response to Staff 21-450, the Company stated that it does not systematically track vacancy information.

Q. WHAT WERE DEV'S AND DES' ACTUAL HEADCOUNTS FOR EACH YEAR 2017 THROUGH 2020?

A. The Company provided information in its responses to Staff 21-445 and Staff 21-466, which is summarized in the table below:

Description	2017	2018	2019	2020
Actual DEV Headcounts	6,864	6,762	6,052	6,005
Annual Change in Headcount (No. of Positions)		(102)	(710)	(47)
Percentage Change		-1.49%	-10.50%	-0.78%
Actual DES Headcounts	2,707	3,013	2,976	2,810
Annual Change in Headcount (No. of Positions)		306	(37)	(166)
Percentage Change		11.30%	-1.23%	-5.58%
Source: Staff 21-445 and Staff 21-446				

As shown in the above table, in each year from 2017 through 2020, DEV's headcount decreased. According to the response to OAG 16-271, the decreases in DEV's headcount was primarily due to turnover, unfilled vacancies, and reductions in staffing levels resulting from Yorktown Power Station closing and the Company's Voluntary Retirement Program.

For DES, other than the increase shown from 2017 to 2018, DES' headcount decreased from 2018 to 2019 and from 2019 to 2020. According to the response to OAG 16-272, the fluctuation in DES' headcount was primarily due to the integration/addition of Questar employees in 2018, reductions resulting from the Voluntary Retirement Program in 2019 and a sale to Berkshire-Hathaway in 2020.

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL EXPENSE.

A. While the Company has filled some of the vacant positions through June 30, 2021, based on the Company's historical headcounts, it appears highly unlikely that it will fill all 199 Dominion positions and all 248 DES positions by January 1, 2022, particularly without incurring additional vacancies. In addition, as discussed above, the Company has conceded that it has not performed a specific analysis with regard to the headcounts related to the COVID-19 pandemic or the VCEA, both of which are the Company's primary justification for adding labor costs for the proposed positions to the 2022 Rate Year. Therefore, using the headcount information from Company Adjustment No. RM-16 and the vacancy information as of June 30, 2021, as shown on Exhibit LA-3, Schedule OAG-12 (page 2 for Dominion and page 3 for DES), I have reflected that remaining vacant positions could be filled gradually during July 2021 through December 2022. Rather than assuming that all of the projected positions will be filled by January 1, 2022 and no vacancies would occur during the 2022 Rate Year, a gradual ramping up of workforce levels during the 2022 Rate Year to reflect the full projected work force complement being achieved by December 31, 2022, is being used for the prospective ratemaking adjustment for work force.

As shown on Exhibit LA-3, Schedule OAG-12, page 1, my recommended adjustment to payroll expense reduces O&M expense for prospective ratemaking by \$6.276 million for Generation and by \$5.804 million for Distribution for an overall reduction of \$12.080 million.

Q. IS THERE A RELATED ADJUSTMENT TO PAYROLL TAX EXPENSE?

A. Yes. My recommended adjustment to payroll expense results in a related adjustment to payroll tax expense. As shown on Exhibit LA-3, Schedule OAG-12, page 4, payroll tax expense is reduced by \$480,000 for Generation and by \$444,000 for Distribution for a total reduction to payroll tax expense of $924,000. This follows the same formulation as the Company's proposed payroll tax expense adjustment, i.e., Company pro forma Adjustment No. RM-38.

Q. DID THE COMPANY CALCULATE PAYROLL TAX EXPENSE ON INCREASED LABOR COSTS THAT INCLUDE BOTH PAYROLL AND BENEFITS COSTS?

A. Yes. It appears that in its Adjustment No. RM-38, the Company applied the payroll tax rate to the total labor cost amounts in its pro forma adjustment that include both payroll and employee benefits costs.

Q. ARE PAYROLL TAXES TYPICALLY INCURRED ON EMPLOYEE BENEFIT AMOUNTS?

A. No. To the extent that pro forma payroll tax expense has been computed on labor cost amounts that are not subject to payroll taxes, as would appear to be the case for many of the employee benefits incorporated in the benefits loading factors discussed above, refinements to the payroll tax expense adjustment may be needed.

<u>OAG-13, Interest Synchronization</u>

Q. PLEASE DESCRIBE THE INTEREST SYNCHRONIZATION ADJUSTMENT SHOWN ON EXHIBIT LA-3, SCHEDULE OAG-13.

A. The Company is proposing that interest expenses to be used as a deduction in the calculation of the test year pro forma adjusted income taxes be based on the interest expenses that are implicit in its proposed overall rate of return. These pro forma interest expenses (referred to as the so-called "synchronized" interest expenses) are determined by multiplying the weighted cost of debt component of the overall rate of return times the rate base used in this case.

Q. HAVE YOU DETERMINED THE SYNCHRONIZED INTEREST EXPENSES IN A SIMILAR MANNER?

A. Yes. Details of my synchronized interest expense adjustment, calculated in the same manner, are shown on Exhibit LA-3, Schedule OAG-13, pages 2 through 6, for the 2017, 2018, 2019 and 2020 earnings test periods, and for prospective ratemaking, respectively.

Q. WHY IS YOUR RECOMMENDED SYNCHRONIZED INTEREST AMOUNT DIFFERENT FROM DOMINION'S PROPOSED SYNCHRONIZED INTEREST AMOUNT?

A. This disparity is due to the differences in the rate base levels used. Differences in the weighted cost of debt rates can also contribute to differences in the amount of synchronized interest; however, in the current case, I have used the same weighted cost of debt that was used by Dominion. Consequently, in the current case, the differences in rate base result in different synchronized interest expense amounts.

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR INTEREST SYNCHRONIZATION.

A. As described above, this adjustment increases income tax expense for the 2019 and 2020 earnings test periods and for prospective ratemaking by the amounts shown on Exhibit LA-3, Schedule OAG-13. My recommended adjusted rate base for each of these periods is lower than Dominion's, which results in lower synchronized interest expense and a higher income tax expense. For earnings test periods 2017 and 2018, I am not recommending any adjustments to rate base, so there is no corresponding increase or decrease to income tax expense. A summary of the increases to income tax expense for the 2019 and 2020 earnings test periods and for prospective ratemaking is shown on Exhibit LA-3, Schedule OAG-13, page 1.

<u>OAG-14, Uncollectibles Expense</u>

Q. WHAT HAS DOMINION PROPOSED FOR UNCOLLECTIBLES EXPENSE FOR PROSPECTIVE RATEMAKING?

A. As shown on Supplemental Filing Schedules 19-28, 44 – 2022 Pro Forma Filing Worksheets – Supplemental from Dominion's supplemental filing, the Company is proposing uncollectibles expense of $42.294 million for prospective ratemaking.[9] Of this amount, the Company included what it claims is the recurring portion of the arrears forgiveness amounts of $206.334 million. Specifically, as discussed on page 18 of his Direct Testimony, Company witness McLeod states that a portion of the $206.334 million that it eliminated through a regulatory accounting adjustment represents uncollectibles expense that would have been incurred in the normal course of business and is therefore appropriate to include in the revenue requirement for prospective ratemaking.

As shown on Statement 29(d), Company Adjustment No. RM-9 from its supplemental filing, Dominion applied a 2020 weighted loss rate of 13.48 percent to the $206.334 million arrears forgiveness, which resulted in $27.819 million on a total system basis and $23.419 million on a Virginia jurisdictional basis, which the

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[9] In its response to OAG 14-267, Dominion confirmed this amount is included in its proposed Rate Year cost of service.

Company proposes represents the portion of the arrears forgiveness incurred in the normal course of business.

Q. HOW WAS DEV'S PROPOSED WEIGHTED LOSS RATE OF 13.48 PERCENT DERIVED?

A. According to Dominion's response to Staff 7-161, the Company calculated its proposed weighted loss rate as follows:

Loss Rate	**Percentage**
2009	14.0%
2012-2014	13.5%
2016-2019	8.6%
Probability Ratings	**Percentage**
2009	47.5%
2012-2014	47.5%
2016-2019	5.0%
Weighted Loss Rate	13.48%
Source: Staff 7-161	

Using the information in the above table, the Company calculated its proposed 2020 weighted loss rate multiplying (1) the 2009 loss rate of 14.0 percent by the 2009 probability rating of 47.5 percent, (2) the 2012-2014 loss rate of 13.5 percent by the 2012-2014 probability rating of 47.5 percent, and (3) the 2016-2019 loss rate of 8.6 percent by the 2016-2019 probability rating of 5.0 percent and then summing the product of each set of calculations to derive the 13.48 percent weighted loss rate.